# CHAPTER VIII

# RECORDING EARNED REVENUE AND CASH TRANSFERS AND COLLECTIONS

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*PURPOSE:*

The purpose of these procedures is to provide guidance for state agency personnel in recording revenue earned and cash received or transferred from augmenting sources for capital construction project expenditures in the capital construction fund. Augmenting revenue can be from either cash or federal sources.

*DEFINITIONS:*

See Chapter 1, Section 2.

*ACCOUNTING/FISCAL ADMINISTRATIVE REQUIREMENTS:*

Expenditures in the capital construction fund for projects authorized through legislative appropriation are funded either through the state capital construction fund cash or through augmenting revenue sources or a combination of both.

Expenditures processed within the capital construction fund for projects that are funded through the state capital construction fund cash will draw from the cash balance recorded in the fund in Agency 999. Deficit cash balances in the operating agency capital construction fund will be replenished with cash transferred from Agency 999 once a year during period 13 for fiscal year end. The transfer of cash from agency 999 to the operating state agencies within the capital construction fund is a system generated entry.

Expenditures processed within the capital construction fund for projects that are funded through augmenting revenue sources must have the earned revenue and corresponding accounts receivable or cash transfer recorded at least monthly.

The capital construction fund (461) earns interest for the fund based on the average daily cash balance of the fund. This interest is available for appropriation for future projects.

Projects that have augmenting revenue sources must record earned revenue as expenditures occur. Projects that are funded from both the state capital construction fund and augmenting sources must record earned revenue from the augmenting sources on a prorated basis based on the budgeted sources of funds. In other words, augmenting revenue is to be earned, as expenditures are made, in the percentage the augmenting sources bear to the total appropriation. The state capital construction fund cash cannot be spent in any greater proportion than its percentage of the total appropriation.

State agencies should transfer or receipt cash into the capital construction fund for augmenting revenue earned on a timely basis in order to assure optimum interest earning within the capital construction fund.

*PROCEDURAL FOCUS:*

The procedures for recording earned revenues and receivable and transferring or receipting cash are divided into two sections in this chapter.

Section 1: Recording Earned Revenue and Related Receivables

- Payment Voucher Method
- Journal Voucher Method
- Automated Revenue Accrual through the Grants Module

Section 2: Recording the Transfer or Receipt of Augmenting Cash

- Transfer of cash between state agency funds
  - --- When receivable recorded
  - --- When receivable not recorded
- Receipting of cash received from outside source.

## SECTION 1
### *RECORDING EARNED REVENUE AND RELATED RECEIVABLES*

There are three methods available within COFRS to record earned augmenting revenue and the related receivables. Earned revenues and receivables may be recorded using the payment voucher (PV) when processing payments for capital construction expenditures. They may be recorded by using a manually prepared journal voucher (JV). They may also be recorded by using the automated revenue accrual (REVA) process contained in the COFRS grants module. All three of these procedures are described in this section.

*PROCEDURAL STEPS:*

***Recording Revenues and Receivables Using a Payment Voucher***

Earned revenues and related receivables may be recorded at the time payments are made by processing a PV document.

**Step 1:** Determine the amount of augmenting revenue that should be earned based on the amount of the expenditure and the percentage of augmenting revenue appropriated for the project.

- Determine the percentage of augmenting revenue to be earned by dividing the amount of augmenting revenue appropriated by the total appropriation as identified on the AFSI table. If multiple augmenting sources are appropriated, a percentage should be calculated for each source.

- Calculate the amount of revenue to be earned from each augmenting source by multiplying the total expenditure by each calculated percentage.

**Step 2:** Prepare a PV document to process payment per instructions in Volume 3, Section 5, Ch.3, COFRS User Reference Manual, Expenditures and Accounts Payable. Record the payment amount on the PV document, referencing the appropriate encumbrance document and proper object of expenditure code.

**Step 3:** Record each calculated amount of augmenting revenue on a separate line on the PV document. Use the appropriate appropriation code, same as used for the expenditure, and revenue source code, which will properly identify the source of revenue. These lines will require an Increase/Decrease indicator of “D” which will create a “credit” entry to the revenue source code. Also record the amount for each offsetting receivable account on a separate line. These lines will require a balance sheet entry to the appropriate receivable account code and an Increase/Decrease indicator of “I”.

This will create a "debit" entry to the receivable balance sheet account. If the cash related to this revenue has been previously received, this balance sheet entry should be to a deferred revenue account instead of a receivable. Total earned revenue and receivable or deferred revenue amounts must be equal.

The net effect of the credit to the revenue source code and the debit to the receivable or deferred revenue account is zero ($0) dollars on the PV. The vendor will be paid the amount due and the augmenting revenue and related receivable will be recorded.

The advantage to this method is that it results in the augmenting revenue being earned at the same time the expenditures are being recorded. The major disadvantage is that it requires additional work effort in determining the amount to be earned and in coding the extra lines on the PV document.

***Recording revenues and Receivables Using a Journal Voucher***

Earned augmenting revenues and related receivables may be recorded periodically using a manually prepared journal voucher (JV) document. This may take the form of a direct input document or a document generated from a recurring journal voucher (REJV) table entry. In either case the document to record the revenue and receivable must be manually entered into COFRS.

*Direct Input of JV Document*

To record revenues and receivables using direct input of document, the amount of earned revenue to be recorded must first be determined for each project.

**Step 1:** Determine the amount of earned revenue to be recorded, determine the percentage of augmenting revenue appropriated to fund the project as described in the payment voucher method.

**Step 2:** Determine the amount of expenditures for which augmenting revenue has not previously been earned by multiplying the total expenditures for the project times the augmenting revenue percentage. Total expenditures may be derived from the AFSI table at the same time the revenue percentages are being computed or may be extracted from the BDA01 (Budgetary Account Status) Report.

**Step 3:** Calculate the amount of earned revenue to be recorded. The amount of earned revenue to be recorded is calculated by subtracting prior recorded earned revenue from the applicable expenditures as calculated above. If multiple sources of augmenting revenue are appropriated, total calculated augmenting revenue to be earned must be allocated in the percentage each source is to the total of all augmenting sources.

**Step 4:** Prepare a COFRS JV document, according to the instructions in the COFRS User Reference Manual Volume 2, Section 3, Ch.3, to record earned revenue and receivable. The JV document should be prepared with a separate line for each appropriation code, revenue source code combination. Enter an account type 31 (revenue) credit amount for each appropriation/revenue source. A separate line entry must also be made for each different receivable type being recorded. Enter an account type 01 (asset) debit amount line for each unique receivable being recorded. If the cash related to the revenue has previously been received this offset line entry should be to an account type 02 (liability) deferred revenue account. Receivables and deferred revenue are not recorded at the appropriation code level. Receivable or deferred revenue totals from several appropriations revenues may be recorded on a single line entry.

The advantage to using this method is that expenditures can be summarized periodically and earned revenue calculated on the totals as opposed to being calculated on each expenditure. This method allows for one document to be used to record earned revenues and receivables for multiple projects. This method is, however, labor intensive.

*Recurring Journal Voucher Document*

An alternative to direct input of a JV document every time augmenting revenue is to be earned is to create a recurring journal voucher (REJV) table entry which will automatically generate a JV document on a monthly basis.

**Step 1:** To have JV documents generated automatically on the first of each month, an REJV table entry must be created in COFRS, instructions are in the COFRS User Reference Manual, Volume 2, Section 3, Ch. 4. This table entry should include all of the revenue and receivable line codes that would be used on a manually created JV as indicated above. The difference would be in the identification of a start date, end date and a frequency indicator and leaving the amount fields blank. The start date would indicate the beginning of the month that the document would first be created. The end date would indicate the last month the document was to be created. The frequency indicator would indicate whether the documents would be created monthly or quarterly. By leaving the amount fields blank, the created JV will have the words “Fill In” in the amount fields. This will alert you to provide amounts or delete each accounting line. If a JV were required more often than monthly, multiple REJV tables would have to be entered with different document numbers by the same start dates. This would allow the COFRS processing program to generate multiple JVs at the beginning of each month. This is necessary because the REJV program only runs once a month.

**Step 2:** Locate created JV on the Document Suspense File (SUSF). Once the documents are created from the REJV process on the first nightly cycle of the month, they will appear on the SUSF. They must then be completed and processed.

**Step 3:** Determine the amount of earned revenues and receivables to be recorded. See *Step 1 through Step 3* Direct Input of JV Documents above.

**Step 4:** Complete the documents with the proper amounts and any needed changes to the accounting codes. Lines can also be deleted or added. When the documents are completed and edited, they can be approved and processed.

The advantage of using this alternative over the manual input of individual JV documents is labor savings. Once the REJV entry is created, JV documents will be automatically generated on a monthly basis and do not have to be manually entered line by line. The only input required is amounts and any changes in account codes. This method, like the manual entry JV and PV methods, still requires manual calculation of the earned revenue and receivable or deferred revenue amounts. In addition, the REJV is locked into a standard processing schedule; monthly or quarterly.

***Recording Earned Revenues and Receivables Using the Automated Revenue Accrual (RVAC) Process***

To use the automated revenue accrual process, it requires establishing each capital construction project in the grants accounting subsystem of COFRS. See Chapter XII.

**Step 1:** Establish a capital construction project in the grants accounting subsystem. A grant master (GM) document must be processed and related validation tables created as required in Volume 4, Section 7, Ch. 3 of the COFRS User Reference Manual, Grants Subsystem.

**Step 2:** Establish the revenue and receivable distribution account codes on the revenue accrual (REVA) table according to the instructions in Volume 4, Section 7, Ch.4 of the COFRS User Reference Manual. This requires entering the Grant Number assigned to the project, the Grant Budget Line (GBL) code/s assigned to the project, each augmenting revenue source code from which revenue will be earned and the percentage of the total project in which they are to be earned. In addition the offsetting receivable account must be entered for each revenue line. Other optional fields may also be used for more detailed reporting and functional use.

**Step 3:** Automated recording of revenues and receivables is done through the nightly Revenue Accrual (RVAC) program. Once the project has been established as a grant and the Revenue Accrual (REVA) table has been created, the Revenue Accrual program (RVAC), which is run as part of the COFRS nightly cycle process, will create and process a JV document to record earned revenue on each and every expenditure coded to the project by means of the GBL code. This process allows for the automatic recording of earned revenue and receivables on a dollar for dollar or percentage basis at the same time the expenditures are recorded.

This method has the distinct advantage of eliminating manual input of any documents to record the earning of augmenting revenue. Once the Grant Master is processed to establish the capital construction project as a grant and the REVA table values are established, the earning and recording of revenues and receivables is a fully automated process, thus eliminating the manual input and processing of documents. Another advantage is that, once established, this process is valid for the life of the project and does not have to be modified or reestablished each fiscal year like the other methods. In addition, inception to date reports would be available for the life of the project. This method does, however, require the processing of a GM and establishing of several tables in the Grants Accounting subsystem.

COFRS reports will be generated nightly to show what expenditure (type 22 and 23) transactions were selected for accruing revenue and the transactions generated to record the revenues and receivables.

## *SECTION 2*
## *RECORDING CASH TRANSFERS AND COLLECTIONS*

The recording of cash deposited into the capital construction fund as the result of earned augmenting revenues can be accomplished in two ways depending on the source of the augmenting revenue. If the augmenting source is internal to the state, cash resulting from earned revenue may be transferred to the capital construction fund by means of a JV. Either JV or intergovernmental transaction (IT) documents may be used for this purpose. If the source of augmenting revenue is external to the state, as in the case of federal or other grant funding, the cash will be received in the form of a check or electronic bank transfer and will require a cash receipt (CR) document.

*PROCEDURAL STEPS*:

***Recording Cash Transfers Internal to the State***

Internal cash transfers into the capital construction fund can result from activities within one state agency or from activities between state agencies. All transfers into the capital construction fund are interfund transfers. If possible, all cash transfer transactions within the state should be accomplished with the use of an IT transaction. These transfers can be calculated and processed under two methods;

- When revenue has previously been earned and a receivable recorded, or
- Transfer the cash at the time the revenue is earned with no receivable recorded.

*Transferring Cash When Revenue and Receivable Has Been Previously Recorded***.**

**Step 1:** Review COFRS receivable balances in capital construction fund for amounts due from internal augmenting revenue sources. Balances are available in the COFRS On Line General Ledger (OLGL) table and in the various periodic COFRS reports.

**Step 2:** Identify the source of the cash to liquidate the receivable by fund and agency (internal to the state agency or from another state agency).

**Step 3:** Prepare the appropriate document for recording the transfer of cash, an IT if the source of cash is from another state agency, or either a JV or IT if the source of cash is within the state agency (the IT is the preferred transaction if the revenue source code is a transfer and no prior receivable has been recorded or if the transfer revenue and receivable have been recorded and the reimbursing agency has previously recorded a transfer expenditure and payable). Instructions for the IT document can be found in Volume 3, Section 5, Ch. 3 of the COFRS User Reference Manual. **Important to remember:** The expenditure type used by the state agency supplying the cash must be consistent with the revenue type used by the state agency receiving the cash. For example, transfer revenue in must be supported by a transfer expenditure type or grant revenue in must be supported by a grant expenditure type. (See the COFRS chart of accounts for valid codes). Use of an IT transaction will ensure that the proper transfer revenue and expenditure codes are used.

**Step 4:** Approve and process the document if source is internal to the state agency. Notify the supporting state agency of the document and obtain their approval if source is from another state agency.

*Transferring Cash When Revenue and Receivable Have Not Been Previously Recorded:*

**Step 1:** Determine the amount of revenue to be earned. See **Recording Revenues and Receivables Using Direct Input of Document** *Steps 1 - 3.*

**Step 2:** Prepare the appropriate document to record the transfer per *Step 3* above. In preparing the document, cash account lines will be used to offset the expenditure and revenue lines on a JV document. Only the revenue and expenditure lines need to be recorded on the IT document. The IT document creates offsetting cash entries automatically. In cases where the revenue and receivable have not been previously recorded, use of the IT transaction is preferred.

***Recording Cash Received from Sources External to the State***

Revenues received to support capital construction projects from sources external to the state can be in either of two forms of transactions. They can be received in advance of any activity as the result of a grant or they may be received as reimbursements of expenditures for authorized projects, the result of billing of accounts receivable. Whichever form the transaction may take, the receipt of the cash must be recorded in COFRS with a cash receipt (CR) document. A CR must be processed whether the payment was received in the form of cash, check, or by means of electronic bank transfer.

**Step 1:** Determine if funds received represent an advance or reimbursement of expenditures resulting from the recording of an accounts receivable.

**Step 2:** Prepare a CR document to record the receipt of funds according to the instruction in Volume 2, Section 4 of the COFRS User Reference Manual, Revenue and Accounts Receivable Accounting. If the funds received represent an advance, the amount received should be credited to a deferred revenue account. If the funds received represent a reimbursement of expenditures and liquidation of a receivable the amount should be credited to the appropriate accounts receivable account.

**Step 3:** Edit the CR document for errors and apply state agency level approval.

**Step 4:** Forward approved CR document and funds, or evidence of funds if received by electronic means, to the State Treasurer for final approval and depositing. If funds were received electronically, the State Treasurer will approve the document when verification of the deposit is received from the bank.

**Step 5:** If funds were received in the form of an advance, revenue will be earned and recorded according to Section 1 as the funds are expended.